

*Remarks as prepared for delivery*

FHWA Administrator **Mary Peters**

16<sup>th</sup> Annual ARTBA Conference on Public Private Ventures in Transportation

Thursday, December 9, 2004, Washington, D.C.

*FHWA Public Affairs: 202-366-0660*

### ***BIGGER ROLE FOR THE PRIVATE SECTOR***

As business leaders, you understand that investments must yield a positive rate of return. You understand opportunity cost and risk. We in the public sector are more risk-adverse. However, the public sector must create an environment that will attract, not discourage public-private partnerships.

I want to be very clear on where the Bush Administration stands on public-private partnerships (PPP). We like them, we want to encourage them, and we support them.

The President is a great believer in the power of free enterprise. Much of what the Administration is doing on a wide variety of issues is bringing market forces to bear for the benefit of all Americans. And we see that market forces work.

DOT Secretary Mineta and I are working to make PPPs and free markets a much bigger part of U.S. transportation.

As the Secretary said yesterday, we have all benefited from private sector participation in telecommunications, pipelines, railroads, maritime and aviation. Why not highways, bridges and tunnels?

1. Unleashing the power of the private sector will bring more (needed) innovation to transportation.
2. Transportation dollars will go further with P-P-P.
3. Public-private partnerships will bring transportation improvements to the public faster -- in some cases far faster -- than what we now consider a "normal" timetable. They will cause systems to be more customer-focused and help relieve the congestion and bottlenecks that are choking our economy and degrading our quality of life.

***HTF FALLING SHORT***

For the next few minutes, I'd like to outline our vision of why the private sector and the free enterprise system should play a bigger role in the future. And to do that, I want to start with a look back, because it can guide us about how to go forward.

In September 1954, President Eisenhower established the President's Advisory Committee that was directed to develop a plan for an Interstate Highway System. It came to be known as the Clay Commission. This Committee ultimately recommended -- and President Eisenhower agreed -- that the Interstate System should be funded primarily by gas and diesel oil taxes and augmented by tolls only in limited instances . . . although the President originally recommended tolls!

Fast-forward to the early 1980s and the administration of President Reagan. The President made several attempts to redefine the federal and state roles in transportation, including proposing a Federalism Block Grant Highway Act. President Reagan recognized that with completion of the Interstate System, we needed to redefine the future of transportation. However, Congress rejected his proposals.

Now, fifty years after President Eisenhower first proposed a review of the federal role in highways, we have a serious mismatch between supply and demand. The user-fee system set up to finance the Interstate Highway system -- the Highway Trust Fund (HTF) -- has served us well. But, traditional funding is simply not keeping up with the growth of business and personal travel.

The challenges we face today are very different than those that existed a half-century ago. The challenge then was national connectivity. Today, it is congestion and capacity -- largely local and regional issues.

One business at a time and one commuter at a time, congestion robs our nation of productivity and quality of life. It's clear that Highway Trust Fund receipts are not growing fast enough to meet the nation's transportation needs. Among the reasons:

- The public doesn't have enough trust in the current system to support higher gas taxes.
- The gas tax is no longer an adequate proxy for costs imposed by drivers on the system.

### ***UNLEASH THE FREE MARKET***

So what do we do?

We need to determine what is truly in the national interest for surface transportation and then structure a funding mechanism to support those priorities. Doing so is currently overshadowed by the urgent need to reauthorize the surface transportation program.

When it is finally passed, we hope it will include President Bush's proposals that lead to more private sector involvement, including private activity bonds, state infrastructure banks, a strengthened TIFIA, and more state flexibility for tolling.

Having been taught by my father to present solutions, not just problems . . . Let me suggest that our vision for meeting future transportation needs and reducing congestion is the same answer we have for nearly every other product and service in America -- unleashing the power and opportunity of our free market system.

The same market forces that took us from Ma Bell's standard issue, black rotary phone to cell phones and Blackberrys can relieve congestion, reduce the need for road repairs, and improve the safety of our highways.

That's why this administration is promoting PPPs. And already, we are seeing some notable success, which you no doubt know very well. They include Reno's ReTRAC project which is financed in part through a TIFIA loan that includes a blend of public and private sources. And Florida's Turnpike Enterprise, a part of FDOT, but 90 percent of its employees are in the private sector.

I'm encouraged by the number of states, including Virginia, that have recently enacted legislation to expand their ability to participate in public-private partnerships. These are the types projects we are encouraging around the country.

## ***TOLLING***

As we all know, market forces do not work without some form of pricing. In the road business, this often takes the form of tolling. Recent research shows that tolling is not only a proven congestion buster, but also viewed by Americans as a viable option for funding infrastructure needs.

Americans have demonstrated that they are willing to pay for quality and convenience. Many workplaces offer free coffee, but employees, including me, still drop by Starbucks because Americans value quality. The United States Postal Service will deliver a First-Class letter for 37 cents, but businesses are willing to pay \$15 for overnight service because they value the convenience and reliability that comes with an on-time delivery guarantee.

And we are seeing around the country that pricing on highways is no different. When given the option for a quicker, less congested route, drivers are eager to have a choice . . .

If they need to get to their child's ballgame or piano recital --

If they need to run important errands --

Or if they need to fulfill important business commitments.

That's why President Bush, Secretary Mineta and I want give states the option of pricing, if they determine it's the best way to manage their transportation needs. Not only will it raise additional revenue, but pricing is also more equitable. It encourages innovation and economic thinking. And it keeps the transportation dollar local, where it belongs.

The time has come to seriously rethink whether the models we have used to deliver highway services since the 1950s work today.

At FHWA, we hope to work with states and the private sector to develop a broader vision of highway transportation financing that will prevent our children and grandchildren from being stuck in the same congestion we have today.

***SEP-15***

As we are working to realize that goal, we do have SEP-15 available now.

FHWA's most recent effort to encourage innovation -- SEP-15 is a "Program to Explore Alternative and Innovative Approaches to the Overall Project Development Process." SEP-15 will encourage the formation of PPPs by providing additional flexibility for states interested in experimenting with better ways to develop projects.

SEP-15 will lead to increased project management flexibility, more innovation, improved efficiency, timely project implementation, and new revenue streams. It arose out of some of the questions we received from states interested in pursuing large corridor projects -- in particular I-81 in Virginia and I-35 in Texas. These projects did not fit well under SEP-14.

SEP-14 allows for innovations in contracting such as design-build. SEP-15 expands upon SEP-14 and allows states to experiment with all phases of project delivery.

As the projects in Virginia and Texas underscore, we need a special experimental project that allows flexibility on a project-wide basis. States interested in pursuing a SEP-15 project can apply to their Division Office. We are excited by the initial response to SEP-15. Thus far, eight states have expressed an interest in pursuing projects under the program.

Of course, SEP-15 is not a magic wand to make federal requirements disappear.

FHWA is still responsible for our key stewardship responsibilities -- protecting the environment and preventing the misuse of taxpayer dollars. But SEP-15 does allow us, on a case-by-case basis, to carry out those stewardship responsibilities in a more flexible manner.

***FREE MARKETS DELIVER INNOVATION***

Let me close by noting that highways in the U.S. are traditionally government planned, government funded, and government maintained. Not the typical American approach to industry.

But that is changing.

The time has come for us to acknowledge that building a highway network is not substantially different than building a telecommunications network or a network for the delivery of electricity.

I, for one, am quite happy to have options beyond a heavy rotary-dial desk telephone.

The time has come for us to allow -- unleash -- the private sector to participate in all elements of infrastructure improvements. It is time to let the free market deliver the innovation, cost savings, and quality it has delivered in other industries. And, it is time to allow states to expand the pricing of their highway networks.

We know PPPs work.

The time is right to move them into the mainstream of transportation finance.

-end-